Manitoba

Annual Report 1990

The Public Utilities Board

91-05354/

To the Honourable Linda McIntosh,
Minister of Cooperative, Consumer &
Corporate Affairs,
343 Legislative Building,
Winnipeg, Manitoba.
R3C 0V8

Madam:

Section 109(1) of The Public Utilities Board Act directs that the Manitoba Public Utilities Board

> "...shall, on or before the first day of March in each year, transmit to the Minister a report for the year ending the thirty-first day of December of the last preceding year..."

including therein summaries and statistics pertaining to all findings and activities of the Board.

Section 109(2) of The Public Utilities Board Act directs that the Report of the Board thus transmitted to the Minister

> "...shall be submitted to the Legislature if it then is in session and, if not, at the next session thereof."

Pursuant to the provisions of Section 109(1) of the Act, I am pleased to submit to you as Minister under the Act, the Thirty-first Annual Report of the Manitoba Public Utilities Board, pertaining to the year ending on the thirty-first day of December, 1990. This Annual Report is submitted to you on behalf of my colleagues who comprised the Board for the period covered by this Report.

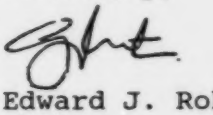
Demands on the Board were again considerable for the year 1990 as outlined in this report. Some of these demands which were beyond the Board's normal duties, included the need for a generic hearing regarding regulatory process as it pertains to the gas utilities, for a Manitoba Hydro capital review hearing pursuant to Order-in-Council 177/90 and for legislative and regulation reviews in support of changes to The Prearranged Funeral Services Act and The Public Utilities Board Act.

The Board would like to take this opportunity to thank its legal, engineering and accounting advisors and Board staff for their dedication in assisting the Board in fulfilling its hearing workload for this calendar year.

The Board has now discharged its responsibilities in all particulars pursuant to Section 109(1) of The Public Utilities Board Act.

Respectfully submitted, this 28th day of February, 1991.

Sincerely,



Edward J. Robertson,
Chairman.

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RESPONSIBILITIES

The Public Utilities Board (the Board) is an independent quasi-judicial body operating under the authority of the Manitoba Legislature.

The Board is responsible for the regulation of public utilities as defined under The Public Utilities Board Act in all matters and in such manner as set out in that legislation. Other enactments which assign regulatory or adjudicative responsibilities to the Board are:

The Crown Corporations Public Review and Accountability and Consequential Amendments Act (proclaimed on January 17, 1989) - referred to herein as The Crown Corporation Act*

The Greater Winnipeg Gas Distribution Act

The Gas Pipe Line Act

The Gas Storage and Allocation Act

The Prearranged Funeral Services Act

The Cemeteries Act

The Municipal Act (Local Utilities)

The City of Winnipeg Act (passenger carrier agreements)

The Manitoba Water Services Board Act (Appeals)

The Highways Protection Act (Appeals)

*Manitoba Telephone System's, Manitoba Hydro's and Manitoba Public Insurance Corporation's regulated rates are determined pursuant to The Crown Corporation Act

The Board is also charged by Orders-in-Council relating to a Canada-Manitoba Agreement to adjudicate certain disputes arising between the Manitoba Telephone System and licensed Cable Television Operators.

The Public Utilities Board of Manitoba hosted the annual meeting of the Canadian Association of Members of Public Utilities Tribunals Association (CAMPUT) in 1990. Chairman E. J. Robertson currently presides as Chairman of the Association.

The objectives of the Association are to improve the education and training of Members and staff of public utility tribunals and to improve public utility regulation in Canada.

MEMBERS/BOARD PANELS

As of December 31, 1990 the membership of the Board included the following:

Member	Date of Appointment
Mr. E. J. Robertson, Chairman	January 16, 1988
Mr. J. E. Berry, Vice-Chairman	August 2, 1989
Mr. M. Anseeuw, Member	December 21, 1988
Mrs. E. Janzen, Member	December 21, 1988
Mr. D. T. Anderson, Q. C., Member	June 7, 1989
Mrs. Catherine Milner, Member	June 7, 1989
Mr. Wm. Pearson, Q. C., Member	June 7, 1989
Ms. D. Barrett-Hrominchuk, Member	August 2, 1989
Mr. T. D. Bulloch, Member	August 2, 1989
Mr. H. Enns, Member	August 2, 1989
Mr. Wm. Laird, Member	August 2, 1989
Ms. S. Lount, Member	August 2, 1989

Mrs. L. Gosselin and Mrs. Elsie Janzen left the Board on July 31, 1990 and January 23, 1991 respectively. Mrs. Gosselin's and Mrs. Janzen's dedication to the Board's activities will not be forgotten and their friendship will be missed by all.

On January 23, 1991 Mrs. Glenda Russell was appointed as a member.

The Board has structured itself into Panels to deal with various matters coming before the Board. The membership of these Panels is set out below. The Chairman normally sits on these Panels unless there is a timing conflict:

1. Manitoba Hydro -
   J. E. Berry
   W. T. Laird
   D. L. Barrett-Hrominchuk

2. Manitoba Public Insurance Corporation -
   H. Enns
   D. T. Anderson, Q. C.
   Glenda Russell

3. Manitoba Telephone System -
   M. Anseeuw
   S. Lount
   H. Enns

4. Natural Gas/Propane Utilities -
   T. D. Bulloch
   W. C. Pearson, Q. C.
   Catherine Milner

5. Service Disconnection -
   D. L. Barrett-Hrominchuk

6. Water & Sewer Utilities -
   J. E. Berry
   W. T. Laird
   D. L. Barrett-Hrominchuk

7. Transit Utilities -
   T. D. Bulloch
   D. L. Barrett-Hrominchuk

8. Highways Protection Act Appeals -
   Members of Panels 2 and 3 on rotation basis

9. The Cemeteries Act/The Prearranged Funeral Services Act -

   H. Enns
   D. T. Anderson, Q. C.
   Glenda Russell

10. The Gas Pipe Line Act -
    W. T. Laird
    T. D. Bulloch

BOARD MEETINGS AND HEARINGS

A total of 137 Board Meetings and public hearings were held in 1990:

Board Meetings	72
Public Hearing Days	60
Pre-Hearing Conference Days	5

ORDERS ISSUED

During the year ending December 31, 1990, 184 Orders were issued, as follows:

Regulated Industry Orders:

Public Utilities Board Act	1
Water and Sewer Utilities	96
Natural Gas and Propane Utilities	20
Manitoba Telephone System	42
Manitoba Hydro	14
Transit	2
Manitoba Public Insurance Corporation	4

Highways Protection Act Orders:

Appeals	4

Miscellaneous:

The City of Winnipeg Act	1

NOTE: Copies of the decisions of The Public Utilities Board of Manitoba are available from the Board's offices upon request.

NATURAL GAS DISTRIBUTION UTILITIES
ICG UTILITIES (MANITOBA) LTD.

ACQUISITION OF ICG BY WESTCOAST

Pursuant to Board Order No. 182/89 dated November 16, 1989 the dissolution of ICG Utilities (Manitoba) Ltd. ("ICG") and conveyance of all its assets to Greater Winnipeg Gas Company ("GWG") ,and the merger and consolidation of the property, franchises, privileges and rights of ICG and GWG became effective January 1, 1990. The merged company was to operate under the name of ICG Utilities (Manitoba) Ltd (the "Company").

On January 10, 1990 the Board conducted an inquiry into the acquisition indirectly of the shares of ICG Utilities (Manitoba) Ltd. by Westcoast Energy Inc.

Witnesses for Westcoast and the Company testified as to the terms of the transaction, the future operation of the utility, and its financial stability.

Westcoast testified that they had the financial resources, performance record and credibility which would give investors, creditors, suppliers and consumers continued confidence in the Company, and further that they had no plans to effect any changes in the capital structure, head office location, dividend or debt repayment policies, accounting policies or procedures, management or operation of the Company. They foresaw no additional expenses related to the transaction which would affect the customers' rates.

Westcoast further stated that, because they did not intend to require the Company to purchase gas from the parent company, no conflict of interest existed.

In Order No. 6/90 dated January 26, 1990 the Board approved the acquisition, indirectly, of the shares of the Company by Westcoast and further concluded that:

1. Westcoast possesses sufficient financial strength and flexibility so that its ownership position does not impair the ability of the Company to raise capital on reasonable terms to finance expansion and operations.

2. The management of Westcoast has sufficient capability and experience to operate the Company in the public interest.

3. No evidence of inherent conflict of interest between the Company and other Westcoast activities was identified and the Board is in a position to deal through the hearing process with any such that might arise.

APPLICATION BY ICG AND GWG (THE COMPANY) FOR INTERIM REFUNDABLE RATES

The Board conducted a public hearing commencing December 15, 1989 to hear the Company's application for approval of Interim Refundable Rates and the establishment of deferral accounts effective January 1, 1990. At the hearing the Company testified that, due to increases in rate base and operating and maintenance expenses, revenues generated by existing rates were inadequate to maintain the Company's financial position. They indicated that, without rate relief, they foresaw a $7.4 million revenue deficit for the 1990 fiscal year.

In Orders No. 2/90 dated January 3, 1990 and No. 3/90 dated January 5, 1990 the Board approved rates which, on an annual basis, had the following annual effect on customers' average gas bills.

Residential	Amount	Percent
Brandon Division	$28	4.44
Southeast Division	$28	4.32
ICGUL Division	$28	4.12
GWG	$23	3.52

Commercial	Amount	Percent
ICG	$110	2.73
GWG	$ 71	1.73

The Board noted that the Company was required to make a "prima facie" case for higher rates effective January 1, 1990. The Board's final decision on the application would be dealt with at the next general rate application.

The Board commented on the frequency of applications and frustration experienced by ratepayers as a result of the multiplicity of rate changes. The Board noted that the concept of Interim Refundable Rates introduces the need for an additional hearing and, perhaps, further rate adjustments once full examination is completed. Accordingly, the Board requested that the Companies file, amongst other things, information based on a future test year at the next hearing. At that hearing, the Board would use this filed material to investigate whether a variation in the regulatory process would enable that process to be simplified and be more equitable to all parties.

OTHER MATTERS

On March 2, 1990 the Board issued Orders No. 15/90 and No. 16/90 authorizing the issuance of senior debentures with a fair market value of $43,000,000 and the granting of authority to issue a $1,200,000, 13¼% debenture.

On July 6, 1990 the Board issued Order No. 113/90 approving depreciation rates and methodology for the Company, flowing from the merger of the former GWG and ICG.

On July 6, 1990 the Board issued Order No. 114/90 authorizing the issuance of 214,640 common shares with a fair market value of $9,500,000.

GENERAL RATE APPLICATION

On March 1, 1990 the Company applied to the Board for an Order determining Rate Base, Rate of Return and Rates based on a 1989 mid-year historic test year, part of which application had been dealt with by the Board on an interim basis in Order No. 2/90.

In its application, filed March 1, 1990, and subsequently revised, the Company requested approval of the following:

- a 1989 mid-year net utility plant of $178,849,199; and a working capital allowance of $23,471,964; for a mid-year rate base of $199,596,129;

- an overall Rate of Return of 13.00%, including a return on equity of 14.25% (amended during the hearing to 14.00%), an increase from the 13.00% previously approved;

- a deemed debt/equity ratio of 60/40;

- new depreciation rates, which would result in an increase in depreciation expense of $3,843,696. The Company proposed to phase in this added expense in two stages: September 1, 1990 and January 1, 1992. These new depreciation rates would result in an increase in annual depreciation expense of $1,983,877 for 1990;

- a revenue requirement of $259,037,980 which results in a revenue deficiency of $17,041,538, an overall increase of 7.12%, exclusive of revenues generated by virtue of the Interim Refundable Rates which became effective January 1, 1990;

- rates resulting from a fully allocated cost of service study, consistent with the study used for the 1988 test year, except for:
  - use of a single Rate Base for the province,
  - use of fully distributed staff benefits to the various functional accounts instead of a manual classification, and
  - change in method of allocating the credit for avoided costs;

- introduction of a new seasonal sales customer class;

- equalization of commodity charges within individual classes;

- equalization of the Fixed Monthly Charge to $10.00 per month for all rate divisions for the Small General Service Customer Class;

- increases in the Fixed Monthly Charge to the Large General Service Customer Class from $30.00 to $50.00 per month;

- any firm gas used by Interruptible customers to be billed at the Firm Sales Rate rather than at the Interruptible Rate plus $6.50 per month;

- rates, to be effective September 1, 1990, to include a "Rate Rider" to recover the revenue deficiency for the period January 1, 1990 to August 31, 1990, resulting from increases in TransCanada Pipeline Limited (TCPL) transportation tolls and all other costs except for depreciation expense; and

- that the Board again recommend that the Government amend The Public Utilities Board Act, or otherwise grant legislative authority to the Company authorizing it to cease delivering services to non-paying customers.

Additionally, the Company requested that the Board approve changes in the method of calculating depreciation expense to be phased in over two rate increases, and to issue $9.5 million in common equity.

Following a review of this Application the Board, in Order No. 133/90 dated August 28, 1990, allowed a mid-year rate base of $199,889,540, an overall Rate of Return of 12.50% and a Rate of Return on equity of 13.0% The total allowed annualized and normalized revenue requirement from gas sales based on the 1989 test year was $252,038,266.

The Board approved a retroactive rate to recover a revenue deficiency from January 1, 1990 to August 31, 1990 to reflect increased TCPL transportation tolls effective January 1, 1990, and denied a retroactive rate to recover revenue deficiencies due to increases in operating costs.

The Board ordered the removal from depreciation rates of negative salvage value for distribution services and transmission mains and ordered the phase-in of proposed rates in three stages. The Company was ordered to file revised depreciation rates and rate schedules.

The Board instructed the Company to adjust the due date on billings from 12 to 21 days, as agreed to by the Company.

The Board noted the substantial increase in accounts receivable arrears, bad debt expense and number of customers in arrears, and the Company's claims that the average cost to residential paying customers was $52 annually. The Board concluded that the Company had attempted to collect accounts in arrears to the best of its ability and, consequently, that it would be unreasonable to suggest that the Company's shareholders fund a part of this expense. The cause of the increase in bad debts and arrears is beyond the control of the Company. The Board re-affirmed its recommendation to Government that the Company be granted statutory authority to disconnect service to non-paying customers, subject to Board approval of the lock-off policy.

In August of 1989, the Board approved the establishment of a single set of terms and conditions of service to be applicable to all natural gas consumers. Consequently the existing "burner tip" service policy available in the GWG system was extended to the ICG system.

The Rural Manitoba Mechanical Contractors Association requested the Board to reverse this decision, arguing that they had been unaware of the change in policy and that it would create an adverse financial impact on their business. The Board did not reverse its decision, but ordered the Company to file a report respecting the service and its impact by May 31, 1991.

Other determinations made by the Board included:

- approval of the proposed rate structure between the Company and Simplot Chemical Company.

- the Company was required to refile cost allocation studies, rate design and resultant rates to be effective September 1, 1990 for the following scenarios:

  a) changes to revenue requirement, proposed Simplot contract and reclassification of Inland Cement Limited volumes, as amended by the Company on July 9, 1990. Rates to include retroactivity only for increase in TCPL tolls;

  b) Board adjusted revenue requirement of $252,038,266 from gas sales using cost allocation as in a) above. Rate to include retroactivity only for increase in TCPL tolls; and

  c) Board adjusted revenue requirement of $252,038,266 from gas sales and the following adjustments:

     (i) the revised allocation of avoided costs and credits,

(ii) the elimination of the seasonal use class,

(iii) the reduction of the Interruptible Class revenue to cost ratio to 101.5 with the corresponding increase in revenues to be recovered from small general service (SGS) class,

(iv) a fixed monthly charge to Brandon Division SGS customers of $8.00 and for all other divisions of $10.00,

(v) the reclassification of Inland Cement as an Interruptible T-Service customer,

(vi) the proposed arrangement between the Company and Simplot, and

(vii) retroactivity for increases in TCPL tolls.

In Order No. 140/90 dated September 12, 1990 the Board affirmed Orders No. 2/90 and No. 3/90 and approved rates flowing from Order No. 133/90. As a result the impacts on the average residential customer's annual bills based on Order No. 140/90 and including interim increases approved in Order Nos. 2/90 and No. 3/90 were as follows:

Division	Amount	Percent
Brandon Division	$53	7.64
South East Division	59	8.92
ICGUL Division	29	4.12
Winnipeg Division	56	8.12

GENERIC HEARING RESPECTING REGULATORY PROCESS

Coincident with the aforementioned general rate application the Board convened a public hearing to review its regulatory process as it affected the Company. The Board's purpose was to determine what, if any, changes may be necessary to reduce the multiplicity of hearings and resultant rate changes and further to assess the impact that any changes in the regulatory process would have on both the ratepayers and the Company.

The Board proposed to investigate the options which might provide for a single rate change in any one year and to assess the impact of such changes. In Board Order 2/90, the Board had ordered the Company to:

"1) File an application based on audited financial statements, using historic test year data, for purposes of confirming, reviewing, changing, altering or varying this Order.

2) File rate base, rate of return and rates information based on 1989 year-end rate base, using 1989 historic test year data.

3) File rate base, rate of return and rates information based on 1990 prospective test year using 1990 mid-year rate base."

The Board further stated:

"The Board will expect public participation to assist the Board in reaching a fair and equitable solution.

Matters to be discussed should include, amongst others:

a) Alternatives to avoid rate shock;
b) Alternatives to avoid multiplicity of hearings;
c) Methods to improve the Companies' opportunity to earn its allowed rate of return;
d) How best to deal with an application within the context of one hearing per year, i.e., deferral accounts, phasing in of cost increases, cost of gas and other factors beyond the Board's jurisdiction.
e) Such other matters that may properly come before the Board."

The then existing regulatory process used for setting natural gas rates in Manitoba can be summarized as follows:

- The traditional regulatory process required that an application for the determination of rate base and rate of return be based on audited financial statements. Accordingly, an application could not be made until the latter part of March. Given the necessary lead time for the exchange of information, hearing and issuance of Board Order, rates did not take effect until September of that year.

- The Board, in the normal course of determining new rates and rate design, reviewed the following components: rate base; overall rate of return including return on equity; revenue requirement; and cost allocation.

- The financing of rate base in this jurisdiction includes short-term debt, long-term debt and equity. Each of these forms of financing has a cost, being interest or, in the case of shareholders, return on equity. The methodology contemplates that rate base is equivalent to the total of short-term debt, long-term debt and equity although in practice the two are never precisely equivalent.

- The Board approved the amount of debt relative to equity which finances rate base as well as the rates which the Company would be allowed to recover on each of these forms of financing. An overall rate of return is determined by multiplying the individual costs of debt and equity by their relative proportion of total financing. The net revenue necessary to provide the appropriate return is determined by multiplying the overall rate of return by rate base.

- The revenue requirement of the Company included the historic test year operating costs, amortization and depreciation on utility plant, the overall return or cost of capital financing previously determined, municipal, business, capital and income taxes, and the cost of gas. In actual practice, the Board would augment the historic test year operating costs by adding known and measurable adjustments for additional costs expected to be incurred by the Company for the following year.

- Once the revenue requirement was established by the Board, an agreed method of cost allocation guided the Board in determining how the various classes of gas consumers would contribute the required revenue from gas sales of the Company.

The Company submitted that the then present regulatory process required that a general rate application ("GRA") for determination of rate base and rate of return be based on audited financial statements. An application therefore could not be made until the latter part of March because of this requirement. Given the necessary lead time for exchange of information, hearing and issuance of a Board Order, rates flowing from a GRA would not take effect until September of that year.

The Company witnesses stated that they could not achieve, or come close to achieving their allowed rate of return in the hearing year, given this regulatory lag. Furthermore, this inability to earn the allowed rate of return inhibited the Company's attempts to raise funds required to finance their capital programs.

As part of the issue of reducing the multiplicity of hearings and enhancing the Company's opportunity to earn its allowed rate of return, the Company proposed that the use of deferral accounts be expanded from those previously approved by the Board for variances in fuel ratios and peaking supplies.

The Company indicated that the deferral of these cost increases to the following January 1 would be based on weather normalized volumes and would include carrying charges calculated at the Company's monthly short-term borrowing rate.

The Company also stated that under any methodology "...there may be unforeseen circumstances that would call for another Hearing and change during the year". The Company cited TCPL transportation increases and other changes in the cost of gas as examples of such circumstances. Although the Company proposed to deal with such changes by use of deferral accounts, they indicated that deferral accounts would not be practical where cost increases were substantial.

The Company's submission respecting the generic hearing included three alternative regulation methodologies: historic year-end, modified historic year-end and prospective (future) test year. The Company's submission indicated a future test year would result in one hearing per year whereas the retention of an historic test year in any form would require two hearings per year dealing with interim refundable rates and final rates respectively, should the Board continue to disallow total rate retroactivity.

In support of a future test year the Company stated that "...rates are set to generate revenue in the future - the question at issue is what time period is to be used to establish what the revenue requirement is because the rates are set to recover that requirement". The Company went on to say that "...there should be matching, in terms of both dollars and time period, to the fullest extent possible, of revenue to costs ...[and] moving progressively from a Mid-Year Historic test year through Year-End rate base, modified Year-End rate base and ultimately to a Future test year is a movement in the direction of matching revenues to costs".

The Company specifically recommended that the following steps be considered in moving from the current regulatory method to a future test year approach:

1. For test year 1990, move to a Year-end rate base methodology. Continue with a January 1 Interim Refundable rate increase and allow retroactivity when the final Order is made;

2. Implement deferral accounts for changes in the cost of gas and related transportation tolls immediately;

3. For test year 1992, move to a future test year.

The Company indicated that these recommendations would:

- reduce the number of rate hearings by the end of 1991;

- reduce the number of rate changes by the end of 1990;

- improve the Company's opportunity to earn its allowed Rate of Return on Equity progressively for calendar years 1991 and 1992; and

- phase in the effect of rate shock.

Consumers' Association of Canada (Manitoba)/Manitoba Society of Seniors (CAC/MSOS) recommended no change to the regulatory process. Should the Board conclude that the present process is unsatisfactory, CAC/MSOS recommended the establishing of interim rates effective January 1 of the rate year on the basis of an inflation formula (CPI index minus "x"). Once rates are determined at a general rate hearing, the difference between interim and allowed rates should be made up through a temporary surcharge or rate reduction as appropriate.

In Order No. 143/90 dated October 15, 1990 the Board ordered that:

1. The Company file, as soon as possible, an application for 1991 rates flowing from its new gas costs related to its long-term gas supply contracts and peaking supply arrangements effective in 1990 which may include any other adjustments to revenue requirement that the Company deems necessary. In the event this application included adjustments to its revenue requirements other than adjustments related to the cost of gas, the Board would require its normal 90 day preparatory period.

2. The Company file future General Rate Applications based on mid-year historic methodology by August 1 in the test year for rates to become effective January 1 in the subsequent year. The Company shall bear in mind the requirement by the Board that actual financial results be utilized to the greatest extent possible. The Company, in a general rate application, shall file updated actual financial information from time to time as it becomes available.

3. The Company, subject to the approval of the Board, continue to use deferral accounts for changes in such matters as gas costs and TCPL transportation charges and peaking supplies, which deferral accounts will include interest at the Company's monthly short-term borrowing rate. Such deferral accounts would be balanced no later than the Company's next General Rate Application. The Company would notify the Board of the timing and the amount of all applicable cost changes to be deferred and the establishment of deferral accounts for purposes other than those noted above will require the Board's approval.

The Board noted that the Company had consistently earned less than its allowed rate of return on a weather normalized basis. The Board further noted testimony by the Company that it was unable to recover approximately 65% of its annual revenue deficiency when rates did not become effective until September 1 and retroactivity was not allowed by the Board, and that regulatory lag would be eliminated if new rates came into effect on January 1 of any year rather than September 1 as in past practice.

Accordingly, the Board limited the Company to one rate application annually dealing with changes in its cost of service. Such an application, if deemed necessary by the Company, would have to be made by August 1 in the test year for rates to be effective January 1 the following year. The Company would be allowed to seek, at a maximum, a single annual rate adjustment. Solely as a transition measure, the only exception to this new timing process would be to any application the Company may make to set new rates for 1991.

The Board agreed that the use of deferral accounts would reduce the multiplicity of hearings and the number of rate changes. The Board agreed that deferral accounts should include interest at the Company's monthly short-term borrowing rate and should be balanced, either by charging or refunding to customers at a later date. The following criteria for the use of deferral accounts were to apply:

1. to the extent possible, deferral accounts would be used for changes in TCPL transportation charges, peak shaving costs and changes in the cost of gas flowing from the Company's long-term gas supply agreements. Other purposes may be considered by the Board;

2. the maximum amount that would be allowed to be deferred would not be defined but may be subject to review by the Board;

3. the Company would be required to balance the deferral accounts by no later than the next GRA proceeding.

The Board noted that while the use of deferral accounts has advantages as described above, it may mean that rate increases to consumers would be higher and perhaps exceed the limits of rate shock more than if the rate increase had been passed on to consumers at the time incurred. Deferral accounts would not be used for normal increases in the Company's cost of service. The Company would be required to notify the Board of the timing and the amount of all applicable cost changes to be deferred. The establishment of deferred accounts for purposes other than those noted in clause 1 above would require the Board's approval.

The Board's findings on changing the timing methodology will oblige the Company to seek new rates to be effective in January as opposed to September. This change in itself will improve the Company's opportunity to earn its approved rate of return but will not do so to the extent requested by the Company.

The Board considered the exhaustive analysis of alternative test year methodologies conducted at the hearing and concluded that a change in this aspect of the regulatory process at that time was not warranted. In reviewing the Company's proposal to change the test year from the mid-year historic to year-end historic, to modified historic, and ultimately to a mid-year prospective, the Board also considered the actual returns earned by the Company versus allowed returns, rate base equity versus book equity, the cost of capital used in determining rate of return and the impact of changes on consumer rates. In this connection, the Board noted the arguments put forward by CAC/MSOS concerning the different methods of calculation and measurement of rate of return. In addition, the Board noted the Industrial Group's position that the Company has an excellent rating from the bond rating agencies and has little difficulty attracting capital.

The impact of the Board's decision regarding timing of rate changes and deferral accounts will require ongoing review by the Board as will the arguments put forward by various intervenors. When these matters are considered along with the concerns expressed including variances between forecast and actual, increased monitoring, and increased infringement on management functions, the Board is of the view that a change in rate base methodology regarding the test year combined with a concurrent change in deferral accounts and the effective date of rate changes would not be prudent.

Under the method to be adopted by the Board, the Company will not receive any automatic rate increases as implied in the CPI-X model but rather must justify each and every rate increase before the Board. Since the Board will require the use of a mid-year historic test year prior to year end, adjustments may be required by the Board at the time of its next review if the actual results for the test year are significantly different from the initial application.

APPLICATION FOR INTERIM REFUNDABLE RATES EFFECTIVE JANUARY 1, 1991

Subsequent to Order No. 143/90 the Company applied to the Board for an Interim Ex Parte Order to approve an Interim Refundable Rate increase to be charged by the Company for the sale of gas and the provision of transportation services to its customers to be effective January 1, 1991. This Application was based on a 1990 historical test year.

The Company indicated that the Application was necessary because the revenues generated by the rates currently in effect were inadequate to maintain the Company's financial position. As a result of the foregoing, the Company foresaw a significant revenue deficiency for the 1991 and 1992 fiscal years. This revenue deficiency was calculated by the Company to be $9.2 Million, after tax, on an annual basis, and represented an increase in revenue requirements of approximately 3.6%, calculated as follows:

(1)	Operating and maintenance expenses -	
	- Bad debt expense	$3.2 Million
	- Other	4.6
	Increase Subtotal	$7.8 Million
(2)	Growth in rate base ($199.9 Million to $224.6 Million = $24.7 Million)	
	- Return (debt)	2.7
	- Return (equity 38.00% @ 14%)	1.5
		4.2
	- Tax effect on equity return	1.2
	Increase Subtotal	$5.4 Million
(3)	Depreciation increase	1.3
(4)	Income taxes (other than rate base) increase	2.2
(5)	Municipal and other taxes	.7
(6)	Amortization of 1988/89 Hearing costs	.6
(7)	Total increase in non-gas costs	$18.0 Million
(8)	Net change in margin -	
	- Increase in sales	(5.4)
	- Decrease in gas costs	(2.7)
	- Net increase in margin	(8.1)
(9)	Other income increase	(.7)
(10)	Net annual revenue deficiency	$9.2 Million

The Company further indicated that the Application was generally consistent with past applications to the Board except for the following:

1. The Company sought an increase in its return on shareholder equity to 14.00% from 13.00%.

2. A 1990 year-end capital structure of approximately 62% debt and 38% equity.

3. Cost of gas changes including:

   (a) A TCPL toll increase effective January 1, 1991 of approximately $3.3 Million;

   (b) a decrease in peaking costs of approximately $1.3 Million;

   (c) a decrease in firm gas supply costs of approximately $4.7 Million.

4. Introduction of two rate riders, as follows:

   (a) to refund to customers decreased gas supply costs for November and December, 1990 in the approximate amount of $2.2 Million;

   (b) to collect the increase in Uncollectible Accounts in 1990 in the amount of $3.2 Million.

The Company also sought authorization from the Board to create a deferral account with respect to Uncollectible Accounts, to which the Company would track any variances to the $6.1 Million included in its application.

In support of the Company's request for this matter to be dealt with expeditiously and without a public hearing at this time the Company, at a hearing of the Board held on December 7, 1990, stated that:

1. Due to the timing of the issuance of Board Order No. 143/90 regarding regulatory process, the Company was unaware of what its test year would be, among other things, and hence could not have filed this application any sooner.

2. The traditional 90 day time frame allowed by the Board for examination of an application at this resulting late date would cause the Company to lose the benefit of rate enhancement on a significant proportion (45%) of the Company's annual sales made in January, February and March.

3. To address their deficiency, only two realistic options existed for the Company:

   (a) the Board's approval of an interim rate relief without a public hearing followed by the normal public hearing;

   (b) a public hearing in the normal way, following the 90 day rule, and an order in due course granting rate relief retroactive to January 1st.

4. Because of the Board's previous views on retroactivity, the Company considered its only choice in order to address its revenue deficiency and comply with the Board's request to address cost of gas changes was to apply for interim rate relief by means of an Interim Ex Parte Order with a hearing to confirm or otherwise this decision in the fall of 1991 when the Board considers the Company's anticipated application for January 1, 1992 rates.

In regard to financial need the Company indicated that its return on shareholder equity expected for 1990 based on the regulatory method was 6.00% (normalized) or 8.16% (on an annualized and normalized basis) and based on the financial method of 7.80% compared to the 13% currently allowed by the Board. The Company indicated it would have preferred to issue $50 Million to $60

Million of long term debt to cover its capital expenditure program but raised only $43 Million causing a cut-back in the Company's capital program. The Company's short-term credit facility for the end of 1990 is expected to be $50 Million. The 1991 short-term credit line is forecast to be $62 Million.

In Order No. 178/90 dated December 17, 1990 the Board accepted the Company's views on the timing of the application and further that because of that time-frame the company would lose the opportunity to recover a significant portion of any revenue deficiency that might be approved by the Board for the large part of its annual sales that occur in the first three months of each year.

The Board, however, denied the application for an Ex Parte Order and arranged to convene a public hearing on February 7, 1991 to hear the Company's prima facie case for an Interim Refundable Rate increase retroactive to January 1, 1991.

For this coming hearing the Board established a narrower scope of examination, namely:

1. Matters related to financial need would include forecasted operating results for 1990 and 1991 including important elements of cost increases that are not currently covered by existing rates.

2. A specific review of matters related to the increase in bad debt expense and matters related to the Company's inability to lock-off delinquent customers.

3. An overview of matters related to growth in rate base and related increase in depreciation expense.

4. Matters related to the changes in the cost of gas.

5. There will be only limited review of matters related to rate of return.

6. There will be no detailed examination of cost allocation studies since the Board expects that the rate design methodology and revenue to cost ratios will remain generally in line with those previously allowed by the Board.

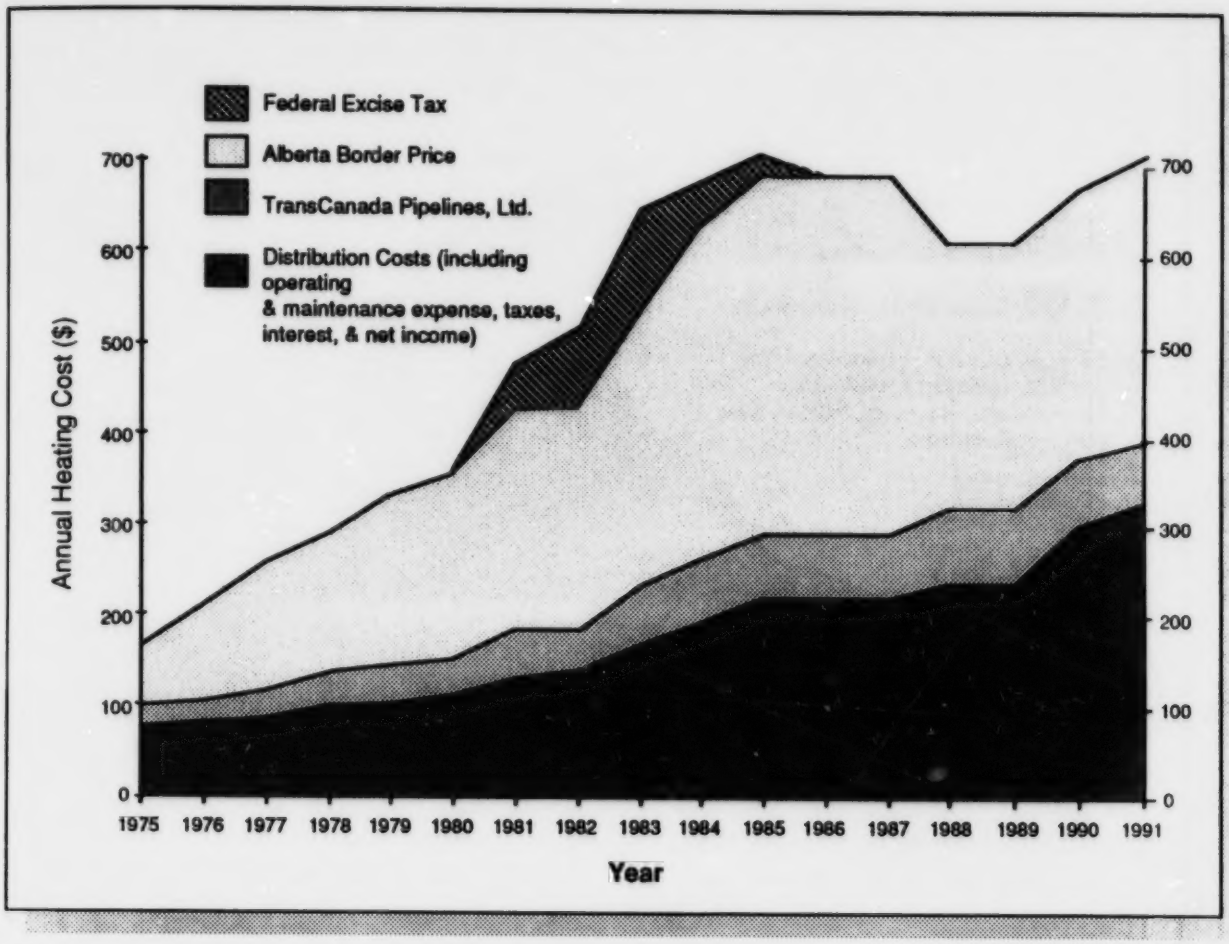
SERVICE DISCONNECTION

The Board is reviewing and preparing a proposed policy and procedure related to disconnection of natural gas utility customers for non-payment of bills in anticipation of the passing of legislative amendments.

The working party has had discussions with the Company, the City of Winnipeg Welfare Department, Brandon Welfare Department, Provincial Welfare Department, The Manitoba Society of Seniors, and Landlord and Tenant Affairs in this regard.

Details of the historical annual heating cost of an average residential customer, historical rates of return earned by the Company and the distribution utility's revenue are shown on the following figures 1, 2, 3, and 4 respectively.

FIGURE 1

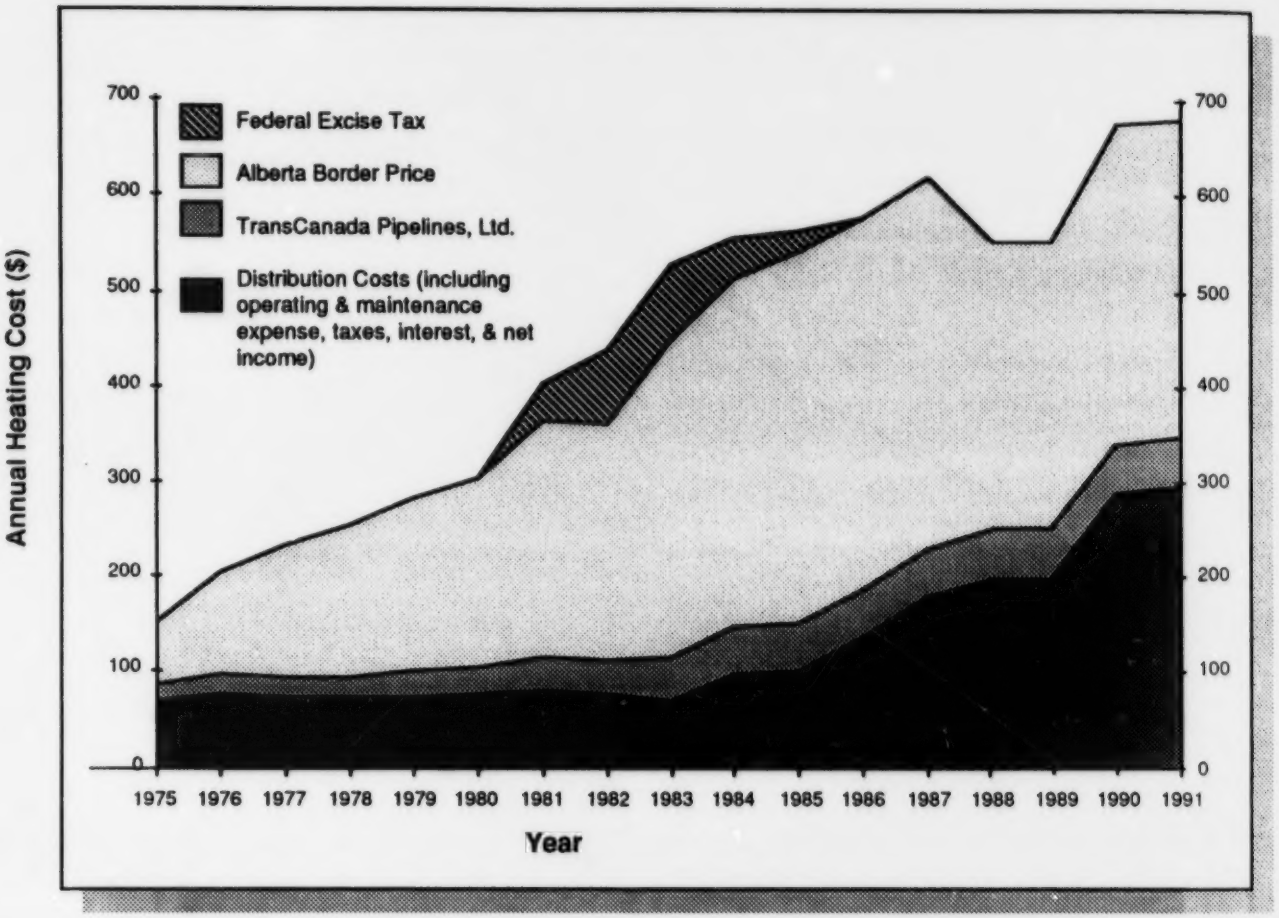


ANNUAL HEATING COST OF AN AVERAGE RESIDENTIAL CUSTOMER

ICG Utilities—Other Divisions

Based on usage of 3,711 m^3 /year, which represents only space heating. Hot water heating is not included. Due to conservation effects, space heating consumption has declined from 4,057 m^3 /year in 1975. At January 1, 1991 rates, 4,054 m^3 would cost $764.

FIGURE 2



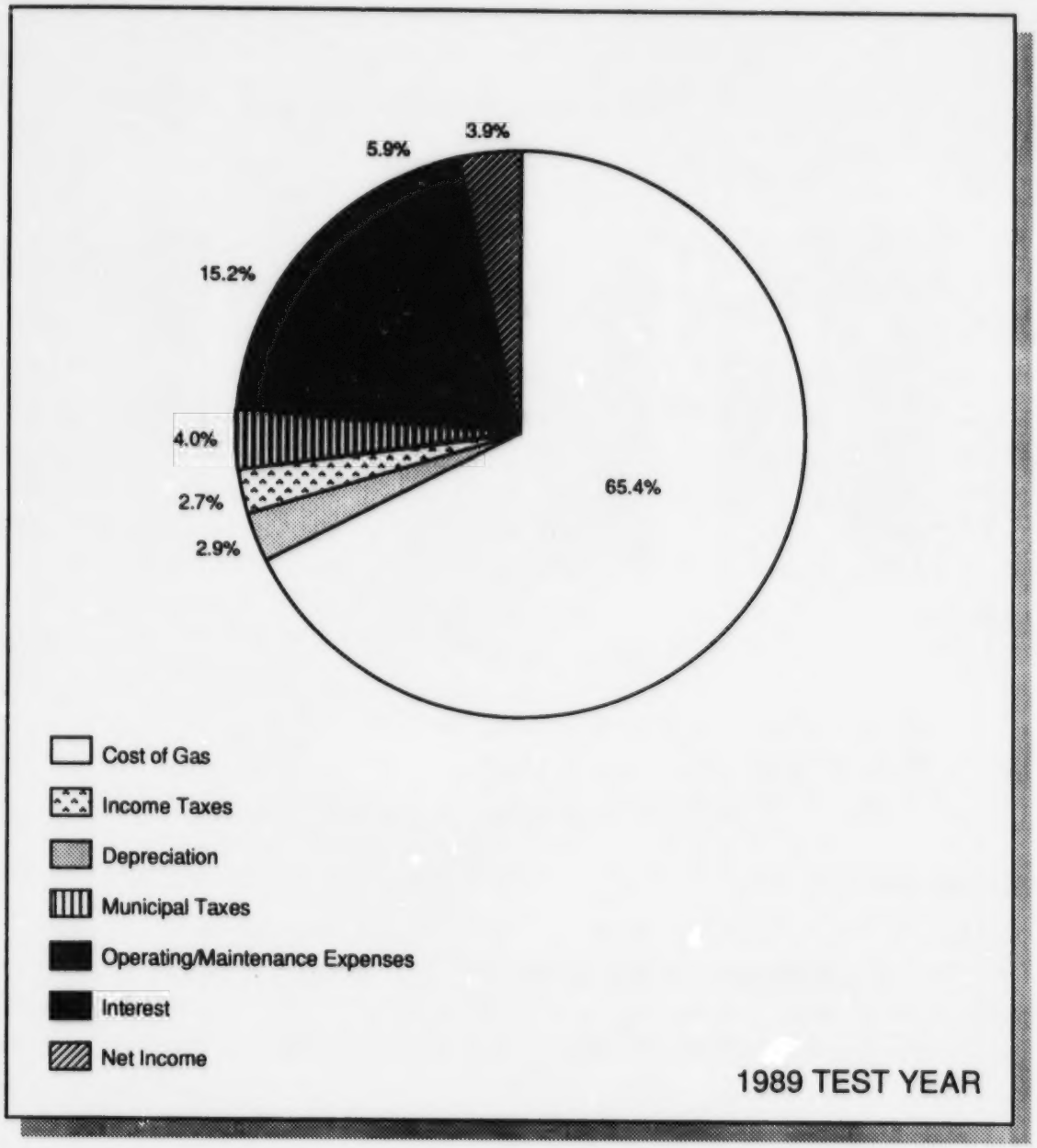
ANNUAL HEATING COST OF AN AVERAGE RESIDENTIAL CUSTOMER

ICG Utilities (Manitoba) Ltd.
Brandon Division

(Includes Brandon, Forrest, R.M. of Cornwallis, R.M. of Elton, and R.M. of Odanah)

Based on Usage of 3,711 m^3/year

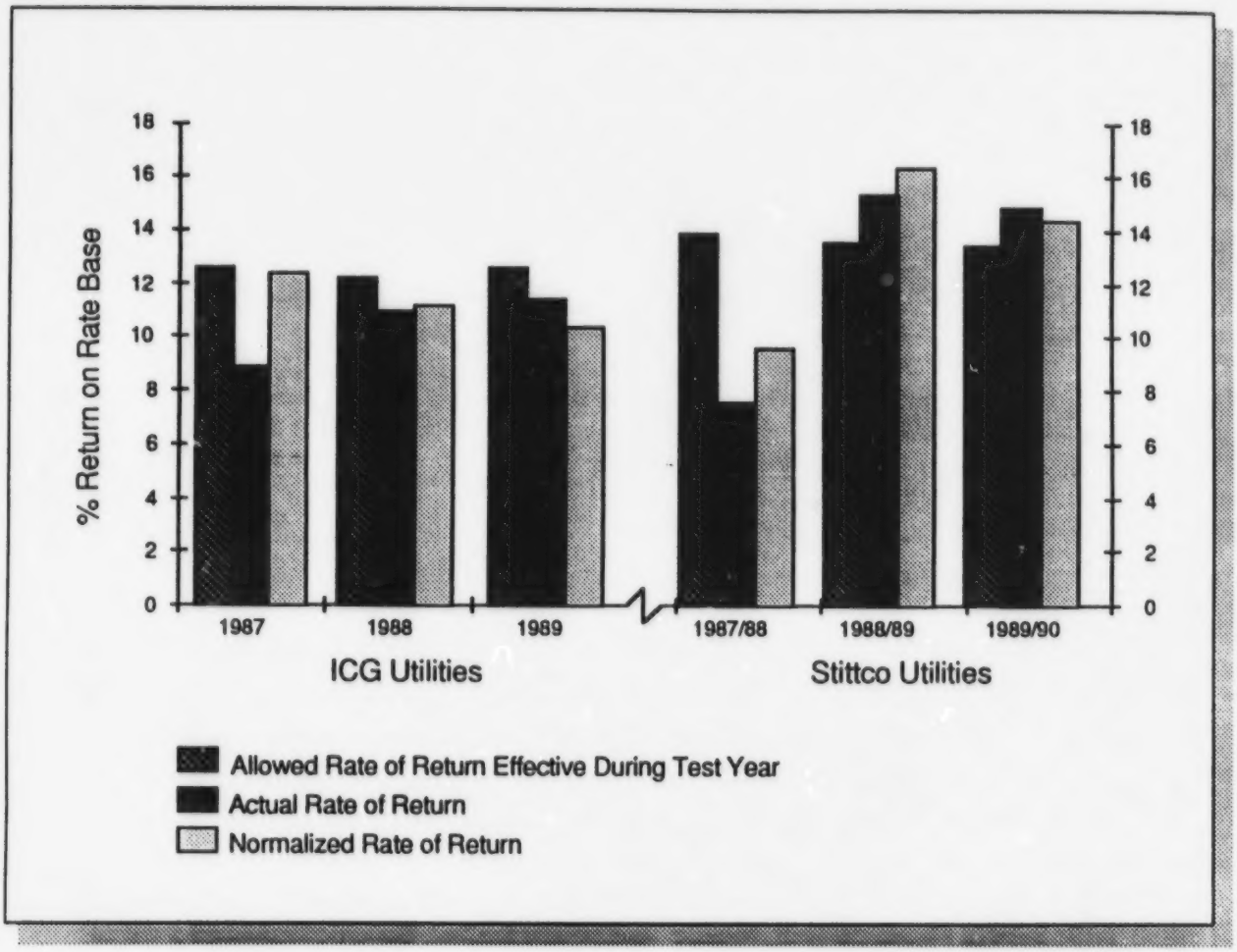
FIGURE 3



DISTRIBUTION OF GAS UTILITY REVENUE
ICG Utilities

Cost of gas includes TransCanada Pipelines Limited transportation tolls, Federal and Alberta government taxes, royalties, and gathering system and producer costs

FIGURE 4



OVERALL RATE OF RETURN ON RATE BASE
for
ICG Utilities (Manitoba) Ltd.
and
Stittco Utilities Man. Ltd.

NOTE: Overall rate of return is the return earned or allowed to be earned by a utility calculated as a percentage of its Rate Base—i.e., investment in property, Plant and equipment.

PROPANE GAS DISTRIBUTION UTILITIES

STITTCO UTILITIES (MAN) LTD.

The Company did not apply for a rate base and rate of return determination in 1990. The Company did file audited financial statements for the fiscal year ending July 31, 1990 and supporting documents which indicated that the Company earned, on a weather normalized basis, a rate of return on rate base of 14.84% which is above the 13.75% rate of return currently allowed by the Board as set out in Order No. 7/87.

The Board noted that the Company had exceeded its allowed rate of return in the last two years, and that the Company had not filed for a general rate review since 1987.

Consequently the Board directed the Company to file a rate base, rate of return and rates application with the Board by no later than January 31, 1991.

In each year the Company tenders for its annual supply of propane. In 1990 only one tender was found acceptable, that of its parent, Stittco Energy Limited. The contract, for a one year period October 1, 1990 to September 30, 1991 is a variable pricing agreement based on the average Edmonton spot price for propane of four major producers. The price constitutes an increase in the cost of product F.O.B. Thompson from $103.60 to $166.10 per cubic meter. The then current spot market price was $183.10, F.O.B. Thompson.

Pursuant to an application for an Interim Ex Parte Order dated October 22, 1990 the Board held an ex parte hearing on November 2, 1990.

The Company testified that it would run out of money without immediate rate relief, citing forecasted increases of product cost for November and December of $75,000 and $106,250 respectively. The Company indicated that their current product inventory would be depleted by November 8, 1990 and requested that rates become effective for all propane consumed on and after November 16, 1990. The Company's net income for the fiscal year ending July 31, 1990 was $187,957.

The Company further proposed the establishment of a variance account in which the difference between the cost of propane built into the contract price and the average Edmonton spot price. From time to time the Company would apply to the Board to adjust the schedule of rates to refund overages or to collect shortfalls in the variance account. If and when prices stabilize at a reasonable rate the Company intends to cancel the contract and enter into a new fixed-price contract.

In Order No. 162/90 dated November 15, 1990 the Board approved interim rates which resulted in increases of 28% to the average residential rate and 27% to the average commercial rate. The Board approved the establishment of the variance account.

THE GAS PIPE LINE ACT

The Gas Pipe Line Act falls under the portfolio of the Minister of Energy & Mines and is administered by the Board.

This Act deals with all the safety related matters in the distribution by pipeline of natural gas and propane in Manitoba. Under the Act the Board through its Engineer Advisors approves construction plans and spot checks construction procedures to ensure safety standards adopted by Regulation and/or by the Board from time to time, are being followed.

Pursuant to this Act the Board monitors the operation of a propane distribution system in Churchill that is owned by Manitoba Housing and Renewal Corporation.

A special subcommittee has been struck to carry out the function of the Board and, as required, to report to the Board.

The Board investigates all fires and explosions related to natural gas/propane and following such investigations may make, if necessary, rules or regulations to prevent a recurrence. In 1990 the Board consulted with its Engineering Advisors and ICG Utilities (Manitoba) Ltd. to establish a more comprehensive reporting procedure respecting such unusual occurrences.

Manitoba Regulation 377/88R made under The Gas Pipe Line Act, requires all individuals to seek gas pipeline location from the gas utilities before excavating. The Regulation further requires that the excavator take all reasonable precautions when excavating in the vicinity of gas pipelines. Excavators violating Regulation 377/88R may be prosecuted.

The Board is currently reviewing Regulation 377/88R to improve its effectiveness in preventing gas pipeline damage. In this regard the Board consulted with representatives from the utilities, the construction industry and the City of Winnipeg to discuss contemplated changes intended to improve pipeline safety.

In 1990 subcommittee Chairman W. T. Laird has represented the Board on the Advisory Committee of the Canadian Standards Association regarding the gas and oil pipeline standard.

MANITOBA TELEPHONE SYSTEM

In 1990 the Board held two hearings of rate applications by the Manitoba Telephone System, (the System) and issued 28 Interim Ex Parte Orders regarding tariff amendments, service improvements and specific adjustments in the System's General Tariff. There were 13 final Orders for individual exchange tariffs, cost awards and for rates flowing from previous decisions.

The Board heard the following two Applications:

1. COMMUNITY CALLING PLUS AND URBAN UNLIMITED PROGRAMS AND REDUCTION IN INTER-PROVINCIAL TOLLS

The System applied to the Board in late 1989 for the approval of;

a) The Community Calling Plus (CCP) and Urban Unlimited Programs and related tariffs,

b) A reduction in interprovincial message tolls effective October 1, 1990; and

c) The confirmation of Interim Ex Parte Orders issued by the Board between March and November, 1989.

The Board issued its decision, Board Order No. 18/90, on March 8, 1990 following its hearing of the above issues in December 1989. The System proposed an expansion of Community Calling Service (CCS) to include the Community Calling Plus and Urban Unlimited. The expanded program was to maintain the strengths of the Community Calling Service program with the added adjacent exchange calling feature and for those exchanges around Winnipeg and Brandon, an enhanced Urban Unlimited optional program.

In the previous decision on the CCS, the Board approved the CCS in principle, but asked the System to review the program; specifically to consider accelerating the increase in rural toll free calling areas, implementing toll free calling to adjacent exchanges, an optional point-to-point flat rate service, review alternate ways of generating revenues, re-examine toll calling patterns and reassess those exchanges where the number of seasonal subscribers affect the program.

i/ Financial Considerations

The System stated that net earnings over the next five year period would be reduced by approximately $88 million as a result of the new CCP and Urban Unlimited programs which decreased intra-provincial revenues and the reduction in interprovincial tolls. The evidence showed that $58.8 million of the decrease was due to lower interprovincial tolls.

The System acknowledged that its financial situation would be affected by the cost of these programs. The decline in net income would mean a longer period to meet the debt/equity ratio objective. It was the System's view that as it gets closer to 1994 it is expected revenues will improve and further that there was an urgency to improve service for rural subscribers.

The Board approved the implementation of the System's enhanced CCS. It pointed out however if the financial objectives do not materialize, the System may have to review its development plans and financial objectives or subscribers may have to bear larger annual rate increases.

ii/ Revenue Requirements

The System proposed rates for the CCP and Urban Unlimited programs to recover 60% of the costs as a monthly charge, the balance to be derived from the System's general revenues.

The net cost of the two programs was $55.3 million over the implementation period to 1997. In the final year (1997), revenues would offset the loss in intra-provincial toll revenues leaving outstanding costs of $12.0 million which are amortization expenses of the capital cost, maintenance and the loss in settlement revenues.

The CCP charge which is in addition to the monthly local rate is based on the amount of new telephone numbers made available to subscribers under the plan and it ranges from $0.50 to $6.10 per month. The Urban Unlimited program charges are $0.90 and $1.40 for Winnipeg and Brandon respectively. The monthly charges for the program in those exchanges adjacent to Winnipeg and Brandon are $18.85 and $6.40 respectively and are optional. The Urban Unlimited premiums will recover approximately the same amount as the foregone toll revenue.

iii/ The Programs

a) Community Calling Plus

The System's CCP program permits exchanges in community calling areas to access one another and with individual adjacent exchanges on a flat-rate, toll free basis. The community calling areas were formed by grouping the smaller calling exchanges in rate groups 1, 2 or 3, with exchanges called by most customers. The criteria were that the calling exchanges were in rate groups 1, 2 or 3, that the called exchanges were within 75 miles of the calling exchange and that Winnipeg and Brandon were excluded. The CCP program reduced the number of calling areas from about 160 to about 60.

The adjacency component is two-way calling between exchanges with contiguous boundaries. It allows calls to one or more adjacent exchanges, outside the community calling areas without incurring long distance charges. The adjacent exchange criteria are: that the called exchange be within 75 miles, except where there is an intervening parkland, forest reserve or water, the adjacent calling exchange would have more than 50% of customers make at least one call per month to the called exchange, and in areas where there are no defined boundaries, adjacent two-way calling would be provided if the calling exchange has access to fewer than 1,350 telephones.

The CCP program was to begin in July 1990 following the digital modernization schedule and be completed by the end of 1996.

The Board noted that the Community Calling charge increased significantly from $0.50 to $6.10 per month based on the increase in numbers that can be accessed in the larger Community Calling Area. The Board expressed concern that two types of anomalies occur with the proposed rates. In the first case where a large and a small exchange are grouped into a larger calling area, there is a higher rate in the smaller exchange than in the larger exchange due to the increase in numbers available to smaller exchange. As a result two exchanges with the same number of telephone numbers that can be called, without tolls, have different rates. This concern is magnified when future percentage rate increases make the differential larger.

The second anomaly occurs in rate group disparities. Exchanges in smaller rate groups, with access to fewer telephone numbers may pay more than exchanges in larger rate groups. This is the result of the CCP charge and the rate group change when exchanges from rate groups 1, 2 or 3, move to rate groups 6 or 7. Some exchanges in rate group 6 would pay more than exchanges in rate group 7.

The Board accepted the System's proposed rates for the present but required the System to eliminate the anomalies and to achieve consistent and uniform rate design for exchanges by the end of 1994.

b) Urban Unlimited

The System proposed this optional flat-rated toll free service for 15 exchanges adjacent to Winnipeg and Brandon, with a premium of $18.85 and $6.40 respectively. Customers would have an initial connection fee to deter subscription changes. The monthly charge for Urban Unlimited would be in addition to the usual local monthly charge and the CCP premium. The program is to begin in 1992 in those exchanges that have CCP and individual line service. The Board noted that this program is in addition to the optional, more modest, Teleplus Brandon and Teleplus Winnipeg programs. Winnipeg and Brandon subscribers are to have universal toll free calling to their adjacent exchanges beginning in 1992 at $0.90 and $1.40 per month respectively.

The Board agreed with the System's expectation that many adjacent Winnipeg and Brandon customers will subscribe to this program. The Board approved the program.

iv/ Inter-provincial Message Toll Reductions

The System proposed a 16.2% average rate reduction for interprovincial message tolls effective October 1, 1990. This will bring the interprovincial rates in Manitoba to parity with other Telecom Canada member companies.

The benefits of lower interprovincial rates to Manitoba subscribers are a saving of $20.3 million in 1991, rate uniformity so that no telephone company has an advantage over another and a reduction in the System's competitive vulnerability of interprovincial long distance business. A large portion of its revenues is generated by a small number of large business customers.

The Board stated its concern with the continuing reduction of interprovincial tolls that leads to an increasing requirement for more revenues from local rates. However, the Board recognized the reality of the current market situation and approved the rate reduction.

v/ Other Matters

The Board heard from a number of presenters in Brandon who said that the Shilo exchange was unique and should have toll free access to the Brandon exchange at rates equal to those of subscribers in the adjacent Douglas exchange. The Board recognized some of the concerns and stated that this matter should be explored in more detail at a subsequent hearing.

2. PRIVATE LINE INTERCONNECTION SERVICE AND CUSTOMER-PROVIDED BUSINESS TERMINAL EQUIPMENT

The System applied in letters dated November 21, and 20, 1990 to the Board for Interim Ex Parte Orders to approve tariff, rates and conditions of service for Private Line Interconnection Service and tariff changes required for the introduction of customer-owned terminal attachments for business equipment.

Included in the application was the request to eliminate from the tariff business communication products provided on a competitive basis.

The Board heard the System's application for an Ex parte hearing on November 21, 1990 and issued its Order No. 175/90 on December 13, 1990.

The Government of Manitoba's new telecommunication policy was outlined in Orders-in-Council Numbers 1067, 1068 and 1110 and Manitoba Regulation 224/90, dated October 1990. The System advised that the policy permits private telecommunication carriers to interconnect their line facilities to the System's network and businesses to attach customer-owned terminal equipment to the telephone network as of February 1, 1991.

i/ Private Line Interconnection

The System is negotiating service agreements with Unitel Communications Inc. and Telesat Canada.

The System stated that the provisioning of interconnection service to competitors will adversely effect System revenues by $3.1 million in 1995 alone and by a total of $9.9 million during the initial 5 year period. The evidence showed that there will be no savings to the System as the infrastructure associated with "private line" will be required to remain intact; the revenue loss will directly reduce the System's net income.

The System proposed an access rate of $90.00 per month for Type A and B connections. Type A and B connections provide private line customers the capability to dial into the Public Switched Telephone Network, PSTN. Type C connection is a restricted PBX connection without PSTN capability for which the rate is $55.10 per circuit per month. The System regards these rates as pure compensation to partially offset the reduction in revenues. The System stated that the monthly revenue loss as a result of interconnect would range from $650 to $1,250 per tie trunk.

The Board noted that the proposed tariff identifies only two companies to be permitted interconnect access in contrast to the Order-in-Council which does not restrict the number of competitors to interconnect with the System's network. The System's policy and intent is to limit the number and type of competitors who will be permitted this service.

The Board approved the Interconnection Tariff in conformance with its interpretation of the Government policy. It was not persuaded that Order-in-Council No. 1068 gives the System sole discretion to determine what or who will be permitted to connect to the network.

ii/ Customer-Owned Business Terminal Equipment

Following the Government of Manitoba policy to allow customer-provided business terminal equipment, the System applied for tariff changes to introduce terminal attachments for individual line business terminal extensions, business multi-line and Centrex terminal equipment including the elimination from the tariff of those items which will be provided on a competitive basis.

The System intends to market single and multi-line terminal equipment in the new competitive market. To compete, the System stated that it must be able to offer competitive products and adjust prices, terms and conditions of supply in response to market demands, as will their competitors.

The System applied for business terminal products to be removed from the General Tariff and categorized as non-basic. The System's position was that competition should be the touchstone for the Board to find the services to be non-regulated. It stated that it will be able to demonstrate to the Board that there will be no cross-subsidy from basic to non-basic services which includes business terminal equipment.

The Board agreed that competitively marketed products can be eliminated from the System's General Tariff. However the Board's opinion was that the existence of competition can only be determined once competitors either offer or do not offer similar product at rates that are in fact competitive. It stated that if it becomes evident that a product eliminated from the tariff ceases to be subject to competition, the Board will deal with it as if it were retariffed.

The System stated that while the Regulations do not permit customer-owned business terminal equipment until February 1991, it requires approval at the earliest possible time in order to minimize confusion in the new market, to allow businesses the opportunity to plan for the choices they have and to prevent the System from being disadvantaged by some private vendors who may choose to pre-sell products and services prior to the System being able to offer competitive pricing.

The effect of competition in this market is an estimated loss of $30 million in anticipated sales over the 5 year period to 1995.

The Board approved this application to de-tariff business terminal equipment. This would allow the System to compete with other suppliers on a level playing field.

3. OTHER DECISIONS

i/ Service Discontinuance of Obsolete PBX Equipment

The System applied to the Board in a letter dated February 15, 1990 for approval to discontinue service of obsolete Private Branch Exchange (PBX), type equipment. Manufacturers had stopped producing parts which resulted in a lack of parts and a number of complaints of equipment failure. The equipment was all the PBX types with moving electromechanical components. Its replacement is digital type business communication systems, BCS.

The obsolete PBX equipment affected 113 customers with service discontinuance on April 1, 1990. Two options were offered; the first option allowed customers to upgrade to new BCS equipment with a service charge reduction of up to $2,000 in addition to the manufacturer's rebate on Mitel digital BCS's; the second option allowed customers to continue their extended rental agreements until they expired at which time the service rates would be adjusted to the standard BCS rates in the General Tariff. But the System would replace obsolete equipment with refurbished digital equipment. Where there was no arrangement for either option, the System proposed to terminate the service, remove the PBX equipment after 30 days notice and provide service under the Business Service Individual Line Tariffs.

The Board accepted the obsolescence of telephone equipment in this period of rapid technological development, especially for types where parts and service are no longer available. The System's offer of an installation incentive to those who choose new equipment and to continue serving those with extended rental arrangements with refurbished digital equipment was found to be fair and reasonable.

ii/ Tier Rates (Schedule 2) Board Order No. 102/90

Board Order No. 106/88 dated June 28, 1988 approved a tier rating plan for select new business communication systems equipment. The concept uses a generic costing procedure for three rate components; Tier A, recovers the cost of capital over the contract period (up to 7 years) chosen by the customer; Tier B, recovers the maintenance and administrative costs on an annual basis, subject to change; and Tier C, recovers the installation and service costs as a single payment or over a 12 month period. The Board approved specific contribution levels for each tier rate.

On June 10, 1990 the Board approved a revised annual schedule of prices for the second year of selected business communication products to reflect current market conditions and costs. The contribution levels for each Tier were maintained but because of cost changes, the overall revenue changed. A result of Schedule 2 is Tier B and C rates were generally reduced.

Schedule 2 rates were unbundled for separate business system's components with specific tariffs established for each element or component. This separation permitted businesses to pick and choose the various features required for their individual BCS systems. The result however was a rather complex change in the rating structure that provided for custom designed telecommunication products.

The Board approved the Schedule 2 rates for 1990 BCS products based on the System's revised costs and on the new cost based pricing procedure for specific Tier product components.

iii/ Community Calling Suspension

The System in a letter dated November 5, 1990 announced that as a result of an unusual number of customer complaints of the CCP program, it had suspended further implementation for a period of time while it undertakes a thorough review. It decided to allow the program to continue in 23 exchanges where it had begun but the suspension affected 27 exchanges scheduled for the program in 1990.

The Board takes note of the System's review of the program and that it will make a submission to the Board in February 1991. The Board intends to hold a number of rural meetings following receipt of the submission.

MANITOBA HYDRO

APPLICATION FOR GENERAL RATES EFFECTIVE APRIL 1, 1990

In November 1989 Hydro applied to the Board for approval of revised rates effective April 1, 1990 and for confirmation of Ex Parte Order No. 186/89 related to diesel full cost rate for communities not connected to the power grid.

The Board convened public hearings in Winnipeg commencing February 19, 1990 and non-evidential public meetings in The Pas, Thicket Portage, Pikwitonei and Virden to examine Hydro's application.

In the application Hydro requested approval for an overall revenue increase of $25.8 million, or an average 4.5% increase in rates. Proposed increases by customer class were:

Residential	5.5%
Small General Service	3.4%
Medium General Service	4.4%
Large General Service	4.4%
Streetlighting	1.5%
Construction Power	4.4%

Hydro reaffirmed their principal objectives which included:

1. The short term objective of achieving minimum reserves sufficient to withstand the financial effects of two years of drought equal to the worst on record [1937 - 1941], plus an amount equal to the maximum loss the Corporation is liable to incur under its self-insurance program. Hydro expects to achieve their minimum target reserve by the end of the 1995 fiscal year.

2. In the long term, to achieve and maintain a debt-equity ratio of 85:15 within the 10 year period following the achievement of target minimum reserves.

3. Hydro filed a prospective cost of service study for the fiscal year ended March 31, 1991 based substantially on the same methods as previously filed with the Board. Hydro considered a revenue to cost coverage (RCC) of 0.9 to 1.1 to be reasonable, with a temporary range of 0.85 to 1.15 to be satisfactory.

In Order Nos. 43/90 and 57/90 the Board acknowledged Hydro's goal for achieving its short term financial objectives by 1995, but noted that Hydro expected to surpass by approximately $15 million its minimum target reserve as established in its Integrated Financial Forecast. The Board further noted the position of CAC/MSOS that a 5.5% increase was too onerous for residential customers.

The Board determined that the additional revenue requirements be reduced by $2.9 million to $22.9 million, and the overall rate increase therefore be reduced by 0.5% to 4.0%. In view of Hydro's goals to bring RCC's closer to unity the Board allocated the $2.9 million reduction to various customer classes, with the net result on rates as follows:

Residential	5.0%
Small General Service	2.9%
Medium General Service	3.9%
Large General Service	3.9%
Streetlighting	1.0%
Construction Power	3.9%

The Board agreed that Hydro should strive to achieve its long-term objective of improving its debt-equity ratio. The Board concluded that this goal would be more properly reviewed once Hydro had achieved its minimum target reserves. The Board consequently determined that it would not deal with Hydro's specific long-term target in the context of the current rate application.

The Board also confirmed Ex Parte Order No. 186/89 respecting Diesel full-cost rates.

The Board further recommended that:

1. Hydro and the Province should negotiate the guarantee fee to ensure that the fee is commensurate with the associated risk for which the fee is intended. This recommendation refers to the guarantee charged by the Department of Finance in respect to Hydro's long term borrowing.

2. Future increases in water rental rates, as set by the Province, should not exceed the rate of inflation in any given year.

3. Consistent with Board Order No. 99/89, it is proper to fund the unfunded pension liability and the Board notes that Manitoba Telephone System has begun such a program.

4. Hydro file the report of its consultant, regarding cost of service methodology, at the earliest possible opportunity rather than filing it at the next rate application.

5. Hydro file with the Board as soon as possible, and by no later than the next rate hearing, a procedure by which the interruptible rates for domestic users may be addressed by the Board in a timely manner."

APPLICATION FOR INCREASED RATES EFFECTIVE April 1, 1991, 1992 and 1993

On November 21, 1990, Hydro applied to the Board for approval of a three year rate increase proposal effective 1991, 1992 and 1993 with successive incremental revenue increases of $27 million, $28.7 million and $27.3 million which average 4.5%, 4.5% and 4.0%, respectively.

Hydro's projected operating statement based on requested rates is as follows:

$ Millions	Actual 1990	Forecast 1990/91	Forecast 1991/92	Forecast 1992/93	Forecast 1993/94
Manitoba sales	$596.9	$640.5	$685.8	$733.6	$ 774.0
Extraprovincial sales	60.1	66.0	111.9	117.5	247.2
Other revenue	7.1	7.6	7.3	7.7	7.6
	$664.1	$714.1	$805.0	$858.8	$1028.8
Expenses:					
Operations	248.3	258.6	273.0	287.4	299.1
Depreciation	87.6	93.3	115.5	136.1	152.3
Fuel and power	33.2	13.0	9.3	9.7	9.7
Water rentals	28.9	34.6	42.0	42.9	45.1
	$398.0	$399.5	$439.8	$476.1	$ 506.2
Net revenue before financing	266.1	314.6	365.2	382.7	522.6
Finance expense	241.9	260.4	340.4	414.9	436.2
Net revenue (loss)	$ 24.2	$ 54.2	$ 24.8	$(32.2)	$ 86.4

The application was arranged to be heard by the Board in The Pas and Thompson on January 14 and 15, 1991 respectively, in Winnipeg commencing February 18, and in Brandon on February 25, 1991.

CAPITAL REVIEW HEARING

Pursuant to Order-in-Council No. 177/90, dated February 14, 1990, the Board conducted a review of Hydro's proposals in respect of major capital projects required for generation and transmission during the period 1990 to 2009, with emphasis on those facilities required by the year 2000.

The public hearings were held in Winnipeg, Manitoba at the Holiday Inn - Downtown on August 20 - 24, August 27 - 31 and September 4 - 6, 1990; at the Hotel Fort Garry on September 7 - 8, 1990; and at the Viscount Gort Flag Inn from October 10 - 13, 1990. Public meetings were also held for presenters in Thompson, Manitoba on September 10 - 11, 1990.

The public hearing process that was undertaken was consistent with the hearing process followed by the Board in regulatory matters. Interested parties were allowed to review Hydro's submission documents and actively participate in the hearing process as interveners. Other interested parties who did not want to participate fully in the hearing process were permitted an opportunity to make presentations at the hearing.

The Board viewed the proposed hydraulic development in Northern Manitoba in the context of long term planning commitments and investment decisions made by Manitoba Hydro and Provincial Governments during the 1960's and the 1970's.

During that era, the Province of Manitoba decided that its future power needs should come mainly from its northern hydro-electric resources and the Province began a systematic development of the major rivers. Manitoba Hydro proposed a number of alternative scenarios, all of which sought to continue the development of the Nelson-Churchill River System.

In the course of its review, the Board considered projections of load growth which indicate that under Manitoba's planning criteria, new sources of generation will be needed to provide for Manitoba's needs in the early years of the next century. The Board found that the criteria were appropriate and accepted the load forecast for the purpose of generation planning.

The lead time required for development of a major hydro-electric station is in the order of ten years. It was apparent to the Board that in the absence of an early decision regarding the next capacity addition, Manitoba's future options would be substantially restricted.

The Board was of the opinion that in its review, all reasonable sources of supply and means of reducing demand were considered. These potential supply and demand side resources were combined in various ways to form development scenarios. Manitoba Hydro put forward seven scenarios, and a number of others were proposed by interveners.

Of the seven Manitoba Hydro scenarios, the one advocated by Manitoba Hydro as its Preferred Development Plan consisted of four principal initiatives; a sale of 1000 MW and associated energy to Ontario Hydro; Diversity Agreements totalling 300 MW with Northern States Power (NSP) and United Power Association (UPA); a program to maintain existing thermal plants in service until 2000; and a demand-side management (DSM) program to save 100 MW of demand and associated energy by 2001. The Preferred Development Plan would require construction of the Conawapa generating station, Bipole III to bring the additional power to Southern Manitoba, an AC transmission line to the Ontario border, and greater transmission capacity to the U.S. border.

Interveners argued that The Manitoba Hydro Act did not give Manitoba Hydro the authority to add system capacity for the purpose of export sales. The Board noted that the service life of Conawapa will approach 100 years, and that a portion of its output will be used to support commitments to Ontario Hydro until the output is more fully required to serve domestic loads. The Board concluded that Conawapa would not be built specifically for export, but rather that the Ontario Sale would provide a means of constructing Conawapa without imposing high costs of surplus capacity on domestic customers. The Board did not consider that interpretation of The Manitoba Hydro Act and The Manitoba Energy Authority Act fell within its jurisdiction.

The second Manitoba Hydro scenario of particular relevance omitted the Ontario Sale but included the other initiatives of the Preferred Development Plan. Based on a comparison of net economic benefits of the foregoing plans, the Board found that the Preferred Development Plan had a substantial advantage; the difference having a present value of $696 million in 1989 expressed in dollars of 1989 purchasing power.

Because the two scenarios differed only with respect to the inclusion or omission of the 1000 MW Ontario Sale, the comparison measured the overall benefits of the Ontario Sale. The Board found that of the total benefit, about $468 million derived from profits of the Ontario Sale and the balance from indirect benefits related principally to system reliability, marketing of non-firm surplus energy, and other operating advantages.

Scenarios proposed by interveners were generally designed to avoid the early construction of Conawapa generating station, in one case by deferral of the Ontario Sale and in others by omission of the Sale, greater reliance on demand-side initiatives and use of less conservative planning assumptions.

Based on comparisons of net economic benefit, reliability and risk, the Board concluded that the Preferred Development Plan proposed by Manitoba Hydro was the least cost option; that it would result in lower customer rates from 1996 to at least 2027; that it would provide the highest level of reliability and the lowest ratio of risk to benefits.

The environmental aspects of the Manitoba Hydro Preferred Development Plan will be the subject of hearings before the Clean Environment Commission and were not within the scope of the Board's review. However, in its comparison of scenarios, the Board considered risks due to possible project modifications required to meet environmental requirements and found that all the scenarios examined involved risk of that nature.

As a result of its review, the Board endorsed those features of the Manitoba Hydro Preferred Development Plan requiring early commitment; specifically the system participation agreement with Ontario Hydro, construction of Conawapa generation station and Bipole III, diversity agreements with NSP and UPA, DSM initiatives and thermal plant life assurance.

The Board did not evaluate elements of the Manitoba Hydro Preferred Development Plan scheduled for later years, concluding that they could better be assessed in future reviews.

Many other issues were discussed during the hearing including environmental costs, socio-economic costs, demand side management, load forecasting techniques, diversity exchanges, thermal life assurance, mitigation issues and rate issues. Several of these issues merit ongoing attention and periodic review. However, these issues did not individually or collectively affect the major conclusions of the Board relative to the approval of the Ontario Sale and endorsement of Conawapa as the appropriate next generation facility.

The Board's specific findings and recommendations are set out below:

1. Manitoba Hydro's proposed generation expansion scenarios were consistent with past decisions and commitments made to develop Manitoba's northern river systems.

2. The Board was of the view that it did not have jurisdiction on the interpretations to be given to The Manitoba Hydro Act or The Manitoba Energy Authority Act.

3. The Board did not consider that Manitoba Hydro proposed in any of its scenarios to construct generation facilities solely for export sales.

4. The Board accepted the planning criteria of Manitoba Hydro as being consistent with the practices prevailing in the electric utility industry in Canada.

5. The Board found that a 12% capacity margin was appropriate for Manitoba Hydro's generation planning purposes.

6. The Board accepted Manitoba Hydro's base case forecasts for the purpose of generation planning.

7. The Board considered the 100 MW DSM target to be used by Manitoba Hydro is an appropriate DSM target for generation planning purposes.

8. The Board completely supported the principle that the economic potential of DSM should be fully exploited to the extent that such DSM programs are cost-effective.

9. The matter of DSM, particularly as it effects costs of service and rates, will be reviewed by the Board from time to time at future rates hearings.

10. The Board endorsed the work necessary by Manitoba Hydro to ensure that the existing thermal plants in Brandon and Selkirk can be relied upon for the remainder of their rated life.

11. The Board recommended that any new thermal plants should be for firming and peaking purposes only.

12. The Board encouraged Manitoba Hydro to continue active negotiations with neighbouring utilities to enhance their import/export and diversity agreements whenever possible and economical.

13. Non-utility generation was endorsed by the Board and Manitoba Hydro was encouraged to pursue this supply option vigorously.

14. The Board accepted Manitoba Hydro's outline of hydro-electric supply options as being reasonable and appropriate for generation planning purposes.

15. The Board concluded that any development plan which depended heavily on large DSM savings and on supply-side resources which Manitoba Hydro may or may not be able to realize would carry unquantifiable but, nevertheless, real risks in terms of system reliability.

16. The Board concluded that the benefits and risks of the Ontario Sale were the determining factor in deciding between Manitoba Hydro's Scenarios 1 and 2.

17. The Board found the terms and conditions of the System Participation Agreement to be sufficiently clear and unambiguous.

18. The Board found the diversity exchange agreements with NSP and UPA, together with any related improvements to the transmission capability with Minnesota, to be reasonable and appropriate initiatives for Manitoba Hydro to proceed with at this time.

19. The Board concluded that the Ontario Sale and its related System Participation Agreement and Facilities Agreement were economically sound.

20. The Board concluded that although the socio-economic evaluation was outside its terms of reference as provided by Order-in-Council No. 177/90, the decision as to the next generating station did not turn on the results of that evaluation.

21. The Board was of the view that its conclusions as to the environmental evaluation should be limited to estimating, to the degree possible, whether Manitoba Hydro environmental cost estimates for the Preferred Development Plan and Scenario 2 were adequate.

22. The Board was satisfied that the $696 million net benefit of the Preferred Development Plan provided a cushion for substantial unquantified environmental costs.

23. The Board noted that the environmental impacts of Conawapa (under the Preferred Development Plan) versus Wuskwatim (under Scenario 2) were less severe in terms of flooding.

24. The Board accepted Manitoba Hydro's current method of dealing with profits from export sales. This matter will be reviewed by the Board from time to time at rate hearings.

25. The Board considered that some risk was inherent in any course of action, or inaction, and that it was necessary to weigh the risks of the Manitoba Hydro Preferred Development Plan against those of the leading alternatives proposed by Manitoba Hydro and interveners.

26. The Manitoba Hydro Preferred Development Plan was found to incur the least reliability risk, among other things. The interveners' alternative scenarios were rejected, inter alia, on reliability grounds.

27. The Board found that Manitoba Hydro's Preferred Development Plan entailed relatively large construction, operating and financial risks but that these risks were in general fully capable of being supported by the comparative benefits of the plan.

28. The Board found that on analysis, the Preferred Development Plan emerged as the scenario least likely to entail substantial environmental difficulties and costs.

29. Based on comparisons of net economic benefit, reliability and risk, the Board concluded that the Preferred Development Plan proposed by Manitoba hydro was the least cost option; that it would result in lower customer rates from 1996 to at least 2027; that it would provide the highest level of reliability and the lowest ratio of risk to benefits.

30. The Board endorsed those features of the Manitoba Hydro Preferred Development Plan requiring early commitment; specifically the system participation agreement with Ontario Hydro, construction of the Conawapa generation station and Bipole III, diversity agreements with NSP and UPA, DSM initiatives and thermal plant life assurance.

31. The Board did not evaluate elements of the Manitoba Hydro Preferred Development Plan scheduled for later years, concluding that they could better be assessed in future reviews. This applied specifically to Wuskwatim.

MANITOBA PUBLIC INSURANCE CORPORATION

The Board's regulation of automobile insurance rates is from the authority of the Crown Corporation Public Review and Accountability and Consequential Amendments Act, Part IV in which rate bases and premiums charged for compulsory driver and vehicle insurance are to be approved. The Board's procedures and Orders in respect of rates are issued under The Public Utilities Board Act.

In 1990 the Board dealt with two Manitoba Public Insurance Corporation's (Corporation) rate applications. The first was for an Interim Ex Parte Order to amend the insurance use class structure for farm and fisherman trucks. The second application was for the 1991 general driver and vehicle insurance rates.

1. AMENDMENT TO THE RATE STRUCTURE FOR FARM & FISHERMAN TRUCKS

The Corporation applied to the Board on February 12, 1990 for an Interim Ex Parte Order under Section 45 of The Public Utilities Board Act to amend the rate structure of the Farm and Fisherman Truck insurance use class. The Corporation sought an amendment to the rate structure of Category "A" in this insurance use class from vehicle weights up to 3,630 kg to vehicles with specific body styles, including light duty pick-up and panel trucks, and weights up to 3,630 kg.

The reason for the amendment was that the Corporation was informed by its agents that an increasing number of vehicles were being registered in a higher weight class, Category "B", to take advantage of lower premiums. The Farm and Fisherman Truck class has three categories based on increasing vehicle weight. The lowest, Category "A" is for smaller vehicles that are used for daily transportation which has a higher loss experience and hence

a higher premium. The larger weight categories, "B" and "C", are for the larger trucks used almost exclusively for farming purposes with lower premiums.

The Corporation stated that if vehicles were registered in an incorrect class and had an accident, it would have difficulty denying the resultant claim. The favourable loss ratios currently experienced in Category "B" would be adversely effected by the shift of more vehicles from Category "A". Owners also avoided the higher premiums for vehicles in the commuter territory as there are no commuter territory rates in Categories "B" and "C".

The Board approved this amendment to the insurance use class for Farm and Fisherman Trucks on an Interim Ex Parte basis in Order No. 10/90 dated February 15, 1990.

2. 1991 INSURANCE RATES

The Manitoba Public Insurance Corporation applied to the Board for a final Order approving rate bases and premiums with respect to compulsory driver and vehicle insurance for the 1991/92 insurance year. The Corporation also applied for confirmation of the Interim Ex Parte Order No. 10/90.

The Corporation sought a general increase of 5.5% ($15.00 minimum) for all vehicle premiums with the exception of trailers, mopeds and other vehicles registered under miscellaneous permits. Additional experience increases from 3% - 7% were proposed for selected vehicle use and territory categories based on 5 year average loss ratios. The other proposals were for rate increase caps on experience increases where inconsistencies existed; special increases for some vehicle classifications; changes to premium structures and rates for motorcycles, mopeds and motorhomes; and no changes to time payments. No change in driver license premiums was proposed.

The Board held a public hearing of the Corporation's application from October 15 - 17, 1990 at the Viscount Gort Flag Inn in Winnipeg. The decision in Order No. 168/90 dated December 7, 1990, dealt with the evidence under the following headings: revenue requirement, rate design and other matters.

A. Revenue Requirement

1. Claims Incurred Forecast

For the first time, the Corporation filed evidence describing its two forecasting methods to project claims incurred costs. This element accounts for 77.8% of the Corporation's total revenue requirement. It is therefore very critical, although difficult to predict due to unexpected occurrences such as weather, court awards and the general economic conditions. An examination of last year's claims forecasting estimates with current projections for that year indicated an overall variance of 4.4% which the Board found acceptable.

Claims incurred costs forecast for the 1991/92 insurance year were $275,719,000, an increase of 7.1% over the previous year. The largest component of cost increases are for no fault accident benefits and bodily injury type claims, which are the result of higher number of claims and slightly higher average cost per claim.

The two methods used by the Corporation for forecasting claim costs are their traditional forecasting model and a new pure premium method of forecasting claims. The Corporation's Claims Forecasting Committee determines the total claims incurred cost estimate for the 1991/92 insurance rates. The Board found that the evidence from the two forecasting methods produced similar results for projecting claims and accordingly accepted the claims forecast.

2. Claims Adjustment and Other Expenses

Claims adjustment expenses were $35,569,000 and other operating expenses, including commissions and taxes were $43,242,000; all together 22% of the Corporation's total estimated costs. These values represent increases of 10.8% and 9.6% over the 1990/91 insurance year. The increases are largely due to compensation costs.

The Board carefully examined compensation costs and found the increases were composed of an inflationary increase of 3%, salary increments of 5% and by an increase in the number of staff of 2%. The Corporation stated some previously approved staff positions will not be filled. Considering the salary increase was below the rate of inflation and some positions were not being filled, the Board found the increases in these expenses to be reasonable.

In order to further assess the Corporation's operating results, the Corporation filed operating expense and claims expense ratios for a number of years and for other companies in comparison with the industry. The Board noted that the Corporation's operating expense and claims expense ratios are comparable with industry. It directed the company to file evidence at the next hearing to show that the costs included in those ratios are comparable.

3. Cost Allocation

In response to the Board's concern about the allocation of common costs between the basic and extension coverages and between the former General Insurance and the Automobile Division, the Corporation filed a consulting company's report entitled, Expense Allocation Review.

The report stated that due to the nature of the product, there is little to differentiate between basic and extension insurance. The Corporation allocates operating expenses and claims expenses on the basis of direct premiums written. The report recommended that the Corporation change allocating claims expenses from direct premiums written to a claims incurred basis; the recommendation was adopted.

In regard to the sale of the Corporation's General Insurance Division, the Board heard evidence that the sale of its property and commercial lines would not adversely affect the cost allocated to the Automobile Division. The Board was satisfied with the report that found no greater charges to basic insurance than were justified.

4. Revenues

Total revenues are forecast to be $350,925,000, a 9% increase over the 1990/91 insurance year estimated revenues of $321,876,000. To obtain the revenues, the Corporation proposed an overall increase in basic insurance rates of 6.6%. Of the increase in vehicle premiums, $12,880,000, or 75%, is to be recovered from an across-the-board increase of 5.5% and the balance from experience rating increases of between 3% - 7%. Approximately 66% of vehicle owners would receive the basic 5.5% increase and 81% would experience increases of 10% or less.

It was the Corporation's view that the overall increase in basic vehicle premiums of $17,080,000 combined with the effect of vehicle upgrading, vintaging and merit/non-merit shifts would result in increased revenues of $26,580,000 which would be sufficient for the 1991/92 insurance year. The balance of the overall $29,049,000 revenue requirement would be made up from an increase in investment income.

The Board accepted the Corporation's estimate of revenue requirement and vehicle premium revenue increase for the 1991/92 insurance year. It noted however that the increase in revenues was insufficient to recover the costs for basic insurance. Basic insurance costs are subsidized from extension insurance revenues; this matter is dealt with further under reserves and jurisdiction.

5. The Goods and Services Tax

Considerable evidence was heard on the introduction of the Goods and Services Tax. The Government had informed the Corporation that it would have a "zero-rated" status. Under the "zero rated" status, the Corporation saves $4.2 million in reduced expenses; if the Corporation received "tax exempt" status, it would have to pay those expenses and a further $8.6 million in additional taxes.

The Corporation's submission was based on a directive from the provincial government. The Board's decision was to deal with the issue as presented by the Corporation in its application.

6. Rate Stabilization Reserves

The Rate Stabilization Reserve (RSR) is funded by profits by both basic and extension coverages of Autopac. For this year, the application anticipates basic insurance to have a $3,605,000 deficit to be offset by extension coverage revenues of $9,641,000.

The Board's position in previous Orders was that the RSR should not be used to subsidize premiums required to cover claims costs. The Board also stated that the target RSR level of 15% of written premiums should be approached over a 5 year time period. The Corporation's response to the Board was that it was using the goal of attaining the RSR target level as a guideline and that it did not feel that it was doing an injustice to that objective with this application.

The Board stated that the RSR should be used to fund unforeseen cost increases and to achieve its target level over a reasonable period of time without rate shock. It stated again that it is not in a position of being able to deal fully with the interest of the motoring public concerning basic and extension coverages. It must accept the projected net income figures from extension insurance assuming their accuracy and reasonableness as a contribution to the RSR. The issue of adequacy of basic and extension coverages and the cost thereof is one over which the Board should clearly have jurisdiction.

B. Basic Insurance Rate Design

To determine vehicle premiums, the Corporation first estimates other revenues, from drivers licences, investments, administrative, permit and miscellaneous charges which are deducted from total revenues to derive the revenue requirement from vehicle premiums. In its application, this amount was $277,473,000 for the 1991/92 insurance year, an overall increase of 6.6% above the previous year.

The Corporation proposed no changes in vehicle territories and in the merit/non-merit programs. The Corporation combined some vehicle use categories and eliminated a few in order to have larger insurance use categories for more accurate statistics.

The rate group structure was changed for motorcycles to one of declared value and engine displacement; for motorhomes the number of classes were increased to allow for more valuable units.

The premiums applied for were designed to be recovered through the 5.5% general rate increase and experience increases of an additional 3% - 7%. The experience increases were assigned to 5 increments for loss ratios above the 85 loss-to-revenue ratio. The Corporation's position is that the general increase of 5.5% is

appropriate because general cost increases due to inflation effects all motorists. The experience increases were proposed to bring the premiums in insurance use categories with higher loss experiences closer to the target loss ratio of about 85%.

The Board considered that rate increases exceeding 10% may be in the area of rate shock. Those who received greater than the 10% increase are of two groups; those who received the $15 minimum which was greater than a 10% increase and those with experience increases of 5% - 7%, which when combined with the general increase, exceeded 10%.

The Board accepted the rate proposal for this application, as the majority of owners will receive increases less than 10% or the amount considered to be rate shock. For those vehicle owners whose premium exceeds 10% the increase will either be small in dollar terms or will allow the Corporation to recognize actual loss experience in specific insurance use classes.

The Board accepted the principle of universal increases to accommodate inflationary costs but recommended that the Corporation re-evaluate this practice as some motorists are already paying in excess of their average cost of coverages. The Board will expect that rate desiqns properly reflect the loss experiences of those classes.

C. Other Matters

1. Jurisdiction

The question of the Board's jurisdiction over extension coverage, was again addressed by all parties. MPIC offers extension coverage in competition with private insurers and to disclose such revenue information would, MPIC insists, seriously

prejudice their position in that market.

The issue of jurisdiction has arisen in the past in areas such as the levels of deductibles, cost allocation, review of coverages, staggered renewal policy, post repair inspections and cost of new and used parts. The Board reiterated its position that it should have jurisdiction over extension coverages.

From the Board's perspective its examination of rates necessitates consideration of the revenue impact of extension insurance on compulsory premiums and coverages. It is unrealistic to believe that proper and efficient scrutiny of basic insurance rates can be achieved and the public interest served without regard to the effect of extension insurance.

2. No Fault Insurance

In response to the Board's request for consideration of no fault insurance, the Corporation submitted the Tillinghast report regarding the application of the Quebec and Ontario no fault plans in this province.

3. Repair Parts and Post Repair Vehicle Inspection

The cost of repair parts is reflected in claims costs and impact vehicle premiums. The Board examined this issue and stated its intentions to explore fully the entire matter of costs and method affecting repairs, including labour costs, allowable hours and the purchase of new parts to be subject to further examination at the next hearing. It acknowledged the efforts being made to increase the use of recycled parts. Similarly, the Board views post repair vehicle inspection as a way to reduce the risk of the Corporation and the public. It is the Board's expectation that the Corporation will address the issue of post repair vehicle inspection in its 1992/93 application.

WATER AND SEWER UTILITIES

The Board issued a total of 96 Board Orders respecting applications filed with the Board by local municipal authorities, as set out below:

(i) 41 applications requesting approval and authorization for method of recovery pertaining to operating deficits for the year ending December 31, 1989, four applications for approval of additional revenue deficits for 1989, and one anticipated revenue deficit for the year 1990. Orders were issued authorizing all 46 applications.

(ii) 30 applications for revisions, amendments to or establishment of rates were processed and Orders were issued authorizing same. Board guidelines which have been prepared and distributed to local authorities were applied wherever possible to assist with rate design and to ensure that sufficient revenue would be provided to cover normally anticipated operating expenses plus an adequate contingency allowance. Applications were handled by public hearing or returnable date notice. In all cases the municipalities and affected water and sewer customers were served appropriate notice.

(iii) 20 applications for establishment of or amendment to utility reserve funds were processed and Orders issued to authorize the creation of the reserve funds.

The Board authorized 23 requests by municipalities to make expenditures from their utility reserve funds for miscellaneous purposes relating to the operations of the utilities.

The Board's staff assisted applicant municipalities and others contemplating changes and seeking guidance in the preparation of their applications thus reducing the cost to the municipalities in preparing a report. Board's staff met frequently with municipal representatives to ensure that applications were filed in the form prescribed by the Board, pursuant to statute. In most instances, these applications required the preparation of rate studies, and when necessary, public hearings were held in the applicant municipalities.

Note: The Board's general guidelines were introduced in 1977 to assist an applicant municipality in the preparation of an application and supporting rate study, for the approval of rate increases, or for the establishment of utility rates.

TRANSIT UTILITIES

The Board issued two Orders respecting the approval of agreements between the City of Thompson and Thompson Bus Lines (1984) Ltd. and/or accompanying rates respecting the provision of regular transit service and transit service for the mobility disadvantaged.

The Board issued one Order respecting the approval of an agreement between the City of Winnipeg and Seniors Transport Service Inc. respecting the operation of a senior citizen transportation service in defined areas in Winnipeg.

The Board monitors on an annual basis the continued maintenance and inspection of vehicles related to the safety of operation of Seniors Transport Service Inc.

Note: The City of Winnipeg water and sewer utility and Winnipeg Transit are excluded from regulation by The Public Utilities Board.

THE HIGHWAYS PROTECTION ACT

Pursuant to Section 21 of The Highways Protection Act four public hearings where held respecting appeals of decisions of The Highway Traffic Board and, subsequently, four Orders were issued.

The applications dealt with appeals against decisions of The Highway Traffic Board respecting applications for permits to construct access driveways onto Limited Access Highways.

Two appeals were allowed and one was dismissed. The fourth was referred back to The Highway Traffic Board for further consideration due to technical difficulties.

A public hearing is held by the Board in response to each appeal application under The Highways Protection Act. In some instances, hearings may be reconvened to permit further evidence to be presented to the Board and occasionally on-site inspections are required.

THE PREARRANGED FUNERAL SERVICES ACT

As administrator of The Prearranged Funeral Services Act, the Board is responsible for licensing companies selling prearranged funeral plans and for ensuring that the operations of these firms conform to statutory requirements.

In 1990, the Board issued 25 renewal licences and one initial licence. Fifteen applications for revisions in fees for services, as well as two applications for sales contract revisions and one for Authorized Trustee agreement revision, were approved.

The Board continued to review and monitor the annual reports filed by the licensees and their trustees in respect of the prearranged funeral plans being sold and the contracted funds maintained in trust.

THE CEMETERIES ACT

During the year the Board issued renewal licences for the operators of 10 cemeteries, 6 columbariums, 3 mausoleums and 8 crematories. Forty-eight licences and 10 transfer licences to sell cemetery services were issued either to owners or to their sales personnel. In addition, 10 applications for revisions in schedules of fees for spaces, materials and services and one amendment to the sales agreement were authorized.

The Board continued to monitor the progress of the passing of accounts by the Court of Queen's Bench in respect of perpetual care funds collected and deposited in trust funds with authorized trustees pursuant to The Cemeteries Act. These accounts are due for passing at varying times, and during the year, the passing of accounts was completed for one cemetery.

FINANCIAL INFORMATION

REVENUES/EXPENDITURES

The financial affairs of the Board are conducted through the Estimates of the Department of Cooperative, Consumer & Corporate Affairs. Accordingly, the expenses of the Board are paid out of the Consolidated Fund and these expenses are recovered in whole or in part from the regulated industries.

For the fiscal year ending March 31, 1990 the Board's expenditures and revenues were as follows:

Revenues		$1,826,564
Expenditures:		
Hearing and Administration Costs	$1,474,988	
Salaries and Per Diems	$ 476,710	$1,951,698

Board Order No. 38/89 sets out the means by which the Board recovers its expenditures relating to proceedings before the Board. Board Order No. 25/90 together with Order-in-Council 422/90 provide for the Board to recover fixed overheads including salaries from the major regulated industries including Manitoba Telephone System, Manitoba Public Insurance Corporation, Manitoba Hydro, natural gas and propane utilities.

Details of the revenues recovered are as follows:

Manitoba Telephone System	$ 311,036
Manitoba Public Insurance Corporation	$ 362,751
Manitoba Hydro	$ 273,531
Centra Gas Manitoba Inc.	$ 847,599
Stittco Utilities (Man) Ltd.	$ 9,596
Prearranged Funeral Services Act	$ 775
Cemeteries Act	$ 17,888
Highways Protection Act - Appeals	$ 150
Other:	
transit	$ 10
water & sewer	$ 3,180
misc.	$ 48
	$1,826,564

INTERVENER FUNDING

Pursuant to The Public Utilities Board Act and Board Order No. 163/87, the Board continues to award costs to parties for making an intervention in matters before the Board. These costs are paid directly by the applicant entity and therefore, do not form part of the expenditures of the Board. Details of awards in calendar year 1990 are set out on the following page:

	Applied For	Granted (Note 5)
MANITOBA TELEPHONE SYSTEM		
CONECTS (Note 1)	$ 3,960.29	$ 318.95
La Salle Exchange	$ 221.04	$ 223.26
Lockport Exchange	$ 237.55	$ 141.07
CENTRA GAS MANITOBA INC.		
CAC/MSOS (Note 2)	$ 25,584.55	$ 25,584.55
CAC/MSOS	$123,333.94	$123,014.32
CAC/MSOS	$ 51,617.30	$ 51,862.00
MANITOBA HYDRO -		
1990 Rate Application		
CAC/MSOS	$ 17,252.58	$ 17,252.58
Capital Review		
CAC/MSOS	$238,100,90	$230,001.96
Northern Flood Committee	$168,978.55	$148,323.55
South Indian Lake	$ 83,986.66	$ 34,154.16
CSC (Note 3)	$211,987.12	$211,221.71
MIPUG (Note 4)	$ 65,512.00	Nil (Note 6)
MANITOBA PUBLIC INSURANCE CORPORATION		
E. Hiebert	$ 244.08	$ 244.08
CAC/MSOS	$ 23,268.14	$ 23,268.14

Note 1: Citizens Opposing Non-Equitable Charges for Telephone Services

Note 2: Consumers Association of Canada (Manitoba) and Manitoba Society of Seniors

Note 3: Concerned Citizens of Manitoba Inc., Sierra Club of Western Canada, Manitoba Branch and Conservation Strategy Association of Manitoba Inc.

Note 4: Manitoba Industrial Power Users Group

Note 5: For the purpose of this Report, the granted amounts include decisions made by the Board in early 1991.

Note 6: MIPUG has requested a review of the Board's decision which as of the date of this writing remains outstanding.